

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF KENTUCKY-AMERICAN)
WATER COMPANY) CASE NO. 94-197

O R D E R

IT IS ORDERED that Kentucky-American Water Company ("Kentucky-American") shall file the original and 12 copies of the following information with the Commission by August 22, 1994, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. The return on average common equity for the 12-month period ending March 31, 1994 is contained in Answer No. 12 of Mr. Mundy's direct testimony. Provide this same calculation for each month of the base and suspension periods, when the information is

available. Include copies of all workpapers, calculations, and assumptions.

2. a. In his direct testimony, Answer No. 12, Mr. Mundy states that Kentucky-American's return on common equity will continue to erode in the coming months. Explain why Kentucky-American expects this erosion will occur.

b. What effect does the growth of Kentucky-American's customer base have on the expected erosion to the return to common equity?

3. Provide the projected dates that Kentucky-American will expand its leak detection program and implement its residential landscape/turf schedule program.

4. When will Kentucky-American's cost benefit analysis of its residential retrofit program be completed?

5. Explain why Kentucky-American limited the expansion of its residential retrofit program to 6,000 customers.

6. a. In Mr. Mundy's direct testimony, Answer No. 20, he states that the costs incurred to implement the conservation plan is reflected in Kentucky-American's forecasted operations. Provide a detailed analysis showing each cost included in the base and forecasted periods that are related to the conservation plan.

b. Identify any estimated reductions in production costs and revenues Kentucky-American included in its base and forecasted periods that are related to the conversation plan.

7. Has Kentucky-American obtained all necessary approvals for the construction projects to be started and/or completed during

the forecasted test period? For each construction project for which approval may be required, provide the information as shown in Exhibit No. 41, Schedule B-4, of the application.

8. For each major construction project to be started and/or completed in the base period and the forecasted period provide the original project completion schedule and the most recent project completion schedule. Include with this schedule the original milestone dates and the most recent milestone dates. Fully explain any variances from the original dates.

9. There are instances when construction projects are not started when anticipated, not completed on time, or cost more or less than projected. Has Kentucky-American factored these occurrences into its forecasted plant additions?

10. For the construction projects that were started or completed during the period of 1984 through 1993 provide the following:

a. The number of construction projects that were started and/or completed ahead of schedule.

b. The number of construction projects that were started and/or completed on schedule.

c. The number of construction projects that were started and/or completed behind schedule.

11. On page 7 of his direct testimony, Mr. Stockton stated that construction of BP 90-06 Kentucky River Station Chemical Feed Building will begin May 1994. Provide the actual date construction of the chemical feed building began.

12. The Jack's Creek Pipeline was to be completed in July 1994 at a cost of \$2,586,750. Provide the actual completion date and cost.

13. Provide a brief description of BP 91-05, the renovation of the Richmond Road Office Complex.

14. The installation of BP 92-096 Computer Aided Drafting System has eliminated one drafting position.

a. Do forecasted salaries and wages reflect the elimination of this position?

b. Provide the date the drafting system was installed and the amount capitalized.

15. Refer to workpaper's W/P-1-5.1 and W/P-1-5.2, Schedule of Average Construction Work In Progress ("CWIP") for the forecasted period. Provide a brief description of the capital costs included in 90-14 Evaluate Source of Supply in the amount of \$319,623.

16. On page 9 of his direct testimony, Mr. Staton states that BP 92-12 Develop Source of Supply is delayed pending the results of Case No. 93-434.¹ Explain the additional projected expenditures for 1994 and 1995 of \$422,105.

17. Case No. 93-434 was initiated to investigate Kentucky-American's sources of supply and its future demand. What impact has this proceeding had on Kentucky-American's schedule to build the Louisville pipeline?

¹ Case No. 93-434, An Investigation of the Sources of Supply and Future Demand of Kentucky-American Water Company.

18. When does Kentucky-American anticipate filing an application for a Certificate of Public Convenience and Necessity to build the Louisville pipeline?

19. In its previous rate case,² Kentucky-American announced that the design of the Louisville pipeline would be postponed for 6 months pending the Kentucky River Authority's reexamination of the supply deficit of the Kentucky River. Provide the outcome of the Kentucky River Authority's reexamination of the Kentucky River water supply deficit.

20. a. If the Louisville pipeline is not built, list Kentucky-American's alternative source of supply options.

b. Based on its current time schedule, when does Kentucky-American need to make a final decision on which source of supply option it will choose?

21. The Uniform System of Accounts for Class A and B Water Companies ("USoA") requires that all expenditures for preliminary surveys, plans, investigations, etc., made for determining the feasibility of projects under contemplation be charged to Account 183 - Preliminary Survey and Investigation Charges. Explain why Kentucky-American has included these costs in CWIP rather than Account 183 as required by the USoA?

22. In Kentucky-American's previous rate case, the Commission found that the Louisville pipeline costs should be removed from

² Case No. 92-452, Notice of Adjustment of the Rates of Kentucky-American Water Company, Order dated November 19, 1993.

rate base based on "the nature of the pipeline costs, the USoA requirements, and the uncertainty surrounding the construction." Identify any changes that have occurred or provide any evidence that would persuade the Commission to reconsider its prior decision.

23. Refer to the response to Item 9 of the Commission's June 27, 1994 Order:

a. For the period of 1984 through 1993, the ratios of actual to budgeted capital construction expenditures ("slippage factors") are: 94.88 percent for Investment Projects 1A-5; and 78.86 percent for Budget Projects. Recalculate Kentucky-American's forecasted revenue requirement, rate base, and cost of service as follows:

(1) Multiply all Investment Project 1A-5 expenditures for each month beginning April 1984 through the end of the forecasted period by 94.88 percent.

(2) Multiply all Budget Project expenditures for each month beginning April 1984 through the end of the forecasted period by 78.86 percent.

(3) Provide workpapers and calculations that show the impact to each element of rate base and cost of service.

b. Provide the same information as required in (a) but exclude budget projects 90-14, Evaluate Source of Supply Options; and 92-12, Develop Additional Source of Supply.

24. Refer to workpaper W/P-1-6.1 Calculation of Average Rate Base Elements Material and Supplies:

a. Explain why Stock E Plant Materials increased by \$149,676 or 41 percent between February 1994 and March 1994.

b. Explain why Stock C Chemicals increased by \$48,541 or 56 percent between January 1994 and March 1994.

25. When will Kentucky-American transfer the Toyota customer advance to its Contributions In Aid of Construction account.

26. Refer to Exhibit 38, Schedule C-2.2(a). Provide an explanation for the increases and decreases that occurred in these accounts between the base period and prior period:

a. Account 40822 - Environmental Tax increased by 71.41 percent.

b. Account 41065 - Deferred State Income Tax Current increased by 2,717.65 percent.

c. Account 420 - Allow Funds Dur Constr increased by 97.51 percent.

d. Account 46111 - Res Sales Unbilled Metered decreased by 41.07 percent.

e. Account 46131 - Ind Sales Unbilled Metered decreased by 117.04 percent.

f. Account 6171 - Or Mn Misc Wat Plt Mat increased by 786.92 percent.

g. Account 6632 - Move & Reset Meters Lab increased by 576.20 percent.

h. Account 6634 - Misc Meter Labor increased by 614.52 percent.

i. Account 6752 - Or Mn Services Lab increased by 368.86 percent.

j. Account 9036 - Billing & Acctng Salaries increased by 3,675.19 percent.

k. Account 924 - Property Insurance increased by 61.6 percent.

27. Refer to Exhibit 38, Schedule C-2.2(b). Provide an explanation for the increases and decreases that occurred in these accounts between the forecasted period and base period:

a. Account 40915 - FIT Current decreased by 35.7 percent.

b. Account 4311 - Interest on Bank Debt increased by 686.76 percent.

c. Account 600 - SS Operation Superv & Eng increased by 342.79 percent.

d. Account 6611 - Storage Facilities Expens increased by 63.03 percent.

e. Account 6634 - Misc Meter Labor increased by 217.88 percent.

f. Account 6652 - Maps & Records Labor increased by 209.15 percent.

g. Account 6654 - Misc. T&D Labor increased by 348.37 percent.

h. Account 6764 - Or Mn Meter Install Lab increased by 164.48 percent.

i. Account 9022 - Meter Reading Labor decreased by 40.95 percent.

j. Account 9036 - Billing & Acctng Salaries increased by 108.02 percent.

28. a. On page 10 of his direct testimony, Coleman Bush states that the labor expense is based on each employee working 2,088 hours. Given the normal 40 hour work week, why was 2,088 hours used rather than 2,080?

b. On workpaper W/P-3-1.1 there are numerous employees that have 2,104 regular hours. Why will these employees work 2,104 regular hours in the forecasted period?

29. Kentucky-American is proposing to grant its salaried and non-union hourly employees pay increases of 3.5 percent in 1994 and 1995, while union employees will receive 3 percent pay increases in those years. Explain why non-union employees will receive larger increase than union employees.

30. Recalculate Kentucky-American's forecasted labor expense using 3 percent pay increases in 1994 and 1995 for all of Kentucky-American's employees. Provide all workpapers and assumptions Kentucky-American used in its recalculation

31. Workpaper W/P-3-1.42 shows that the 3.5 percent increase for salaried employees in 1994 and 1995 is not an across the board increase. Rather, individual increases range from 0.1 percent to 5.61 percent. Provide an explanation as to why the wage increases are so varied.

32. In Case No. 92-452, Kentucky-American's forecasted level of employees was 147, but in this proceeding, Kentucky-American has projected that it requires 144 employees. Explain the difference between the two employee forecasts.

33. a. Provide a detailed explanation and calculation of how forecasted overtime hours was developed.

b. Cite specific instances in the calculation of overtime hours where management judgement and forecasted operational needs was used.

c. Provide an analysis of overtime hours for the 5-year period between 1989 and 1993 comparing the budgeted overtime hours to the actual overtime hours. Include a brief description for any instances where a 5 percent variance is exceeded.

34. Refer to workpaper W/P-3-1/6. How did Kentucky-American determine that \$696,250 of its forecasted payroll should be capitalized?

35. Forecasted fuel and power is based on 5-year averages of pumping by month, system delivery by plant, and kwh to million gallons. However, in Case No. 92-452, Kentucky-American used 6-year averages in its calculation. Explain why Kentucky-American used different averages in its fuel and power calculation.

36. Cite the instances in the calculation of Kentucky-American's forecasted fuel and power expense where operational judgement was used to adjust the averages.

37. Provide the comparisons of the annual budgeted amounts and actual results for fuel and power for the period of 1984

through 1993. Include in the comparison explanations for the variances between actual and budgeted amounts.

38. Provide the rates Kentucky-American used to calculate the Kentucky Utilities Company ("KU") environmental surcharge.

39. What amount of refunds did Kentucky-American receive in July and August 1994 as a result of the KU/South East Coal Company litigation.

40. Cite the instances in the calculation of Kentucky-American's forecasted chemical expense where operational judgement was used to adjust the averages.

41. Provide comparisons of the annual budgeted amounts and actual results for chemical expense for the period of 1984 through 1993. Include in the comparison explanations for the variances between actual and budgeted amounts.

42. Refer to page 12 of Mr. Bush's direct testimony. Explain why Kentucky-American used a 13-year history of weighted average increases in the calculation of forecasted chemical expense.

43. Provide the date Kentucky-American began to use each chemical listed in workpapers W/P-3-3.1 through W/P-3-3.6 in the treatment of water.

44. Refer to workpaper W/P-3-4.2 Waste Disposal Amortization:

a. Kentucky-American has estimated that it will cost \$130,000 to clean the KRS sludge lagoons. Provide the basis for this estimate.

b. When were the KRS sludge lagoons last cleaned?

c. How did Kentucky-American select a 24-month amortization period?

45. When were the Southern and Mid-American Regions of the American Water Works Service Company ("Service Company") closed?

46. a. Provide a detailed description of the process the Service Company used when it decided to close the Southern Region.

b. What role did representatives of Kentucky-American play in the closing of the Southern Region of the Service Company?

47. Describe Kentucky-American's current relationship with the Service Company and any planned changes that will occur in the future.

48. Explain why West Virginia-American Water Company is not being served by the Mt. Laurel Region of the Service Company.

49. Identify any changes in services provided to Kentucky-American by the Service Company due to the switch to the Mt. Laurel Region compared to those provided by the Southern Region.

50. Implementation of several of the recommendations from Kentucky-American's 1991 management audit are tied to Kentucky-American's and the Service Company's strategic planning efforts; however, little information regarding strategic planning has been provided. From the actions taken, it is clear that some strategic planning has taken place. Provide a detailed explanation of the strategic planning efforts, including the manner in which Kentucky-American employees were involved and discuss the current status of the strategic plan.

51. Explain why the Rates and Revenue function at the Vorhees Office was closed.

52. Provide the following data for each subsidiary operating in the American Water Works system by region, for the base period and the forecasted period in the format provided as Schedule 52.

- a. The number of customers served.
- b. The customer billing cycle (i.e., monthly, quarterly, etc)
- c. The number of accounting vouchers.
- d. The allocated data processing and accounting charges using the 1971 service contract with the Service Company.
- e. The allocated data processing and accounting charges using the 1989 Service Company contract.

53. a. Provide a detailed list of the services provided to Kentucky-American by the data processing center at Hershey, Pennsylvania. For each service identify it as a direct billed or allocated cost.

b. For each data processing function, provide the percentage of the cost that is allocated or billed directly.

54. a. Provide a detailed list of the data processing services performed in-house by Kentucky-American.

b. Provide a detailed explanation as to why Kentucky-American is unable to perform all of its data processing requirements in-house.

55. In his Answer to Question No. 16, Mr. Salser referenced the labor cost to key punch IBM cards and run the Meter Mark

Reading Card sheets through the scanner. Explain if these labor costs were allocated or directly billed by the Service Company to the operating subsidiaries.

56. Besides the explanation provided in Mr. Mundy's direct testimony, Answer No. 16, is there any information, analysis or study to support the statement that, "the 1989 Service Company Contract is appropriate for allocating the customer billing expense."

57. Besides the explanation provided in Mr. Salzer's direct testimony, Answer No. 16, is there any analysis or study to support the statement that, "[T]he allocation of the accounting function based on the number of vouchers is just plain inappropriate."

58. In Case No. 90-321³ the Commission stated that, "The problem with the Service Company's approach is that it has allocated all costs in the same manner without looking at the underlying characteristics of each cost separately." Since Case No. 90-321, has the Service Company performed any studies to look at each cost separately to identify the underlying cost characteristic?

59. Identify any changes that have occurred since Case No. 90-321 that would cause the Commission to reconsider its position on customer allocation methodology in the 1989 Agreement.

³ Case No. 90-321, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on December 27, 1990, Order dated May 30, 1991.

60. Are the data processing costs allocated to Kentucky-American overhead costs? Provide a detailed explanation for this response.

61. Provide an analysis of the Service Company charges showing the percentage of allocated and direct billed costs in the format provided as Schedule 61.

62. Provide a reconciliation of the Service Company costs contained in Kentucky-American's response to Item 34 of the Commission's June 27, 1994 Order with workpaper W/P-3-5.1 Management Fees Forecasted test period.

63. a. Provide a detailed analysis of the testing to be performed at the Belleville Lab for Kentucky-American during the forecast period. Include in the analysis the number of times each test will be performed, the cost for each test, and identify the tests required by the Clean Water Act.

b. Provide a detailed analysis of the testing to be performed by Kentucky-American in-house during the forecast period. Include in the analysis the number of times each test will be performed, the cost for each test, and identify the tests required by the Clean Water Act.

64. a. Refer to the response to Item 34 of the Commission's June 27, 1994 Order. Explain the decrease in the direct billed Service Company charges between the base period and forecasted period.

b. Provide a detailed analysis of the projects that will be performed by the Service Company during the forecasted period and directly billed to Kentucky-American.

65. Refer to the response to Item 16 of the Commission's June 27, 1994 Order. Between 1992 and the forecasted period group insurance has increased by \$679,816 or 93 percent. Provide a detailed explanation for this level of increase.

66. Kentucky-American's estimated cost to prepare this rate case is \$381,000. Provide the basis for this estimate.

67. a. On page 12 of his direct testimony, Mr. Grubb states that forecasted insurance other than group is based on the actual premiums being paid as of October 1993. When will Kentucky-American receive its 1994 insurance premiums?

b. When available, provide a revised workpaper W/P-3-8.1, Insurance Other than Group to reflect the insurance premiums that will be paid in 1994.

68. a. On workpaper W/P-3-8.1, Kentucky-American has reduced its insurance real & personal property, workers compensation, and general liability premiums by retro adjustments. Provide an explanation of the retro adjustments.

b. What is the insurance policy period for the retro adjustments included in Kentucky-American's forecast?

c. Provide an analysis of the retro insurance adjustments by category for 1990 through 1993.

69. On page 12 of his direct testimony, Mr. Bush states that rent expense is based on the actual current signed agreements. Provide copies of the agreements referenced by Mr. Bush.

70. Refer to W/P-3-9.1, Customer Accounting. In 1993 customer accounting expense decreased, but Kentucky-American has projected that this expense will increase in the base and forecasted periods. Explain why Kentucky-American has projected this account to increase.

71. Provide comparisons of the annual budgeted amounts and actual results for customer accounting expense for the period 1984 through 1993 and explain all variances between the actual and budgeted amounts.

72. Kentucky-American has projected that its general office expense will increase by approximately 17 percent in the forecast period. Provide a detailed explanation by category describing the changes between the base and forecasted periods.

73. Provide comparisons of the annual budgeted amounts and actual results for general office expense for the period 1984 through 1993 and explain variances between the actual and budgeted amounts.

74. Provide comparisons of the annual budgeted amounts and actual results for miscellaneous expenses for the period 1984 through 1993 and explain all variances between the actual and budgeted amounts.

75. Provide comparisons of the annual budgeted amounts and actual results for maintenance expense for the period 1984 through

1993 and explain all variances between the actual and budgeted amounts.

76. a. On page 14 of his direct testimony, Mr. Bush states that forecasted property taxes is based on the December 1992 tax base and the pro forma 1994 property tax payments. Why did Kentucky-American use its 1992 property tax base?

b. Provide Kentucky-American's 1993 property tax base and property taxes paid using the same form as workpaper W/P-5-1.1.

77. Refer to workpaper W/P-6-1.7, the calculation of the unamortized deferred federal and state income taxes.

a. Provide a reconciliation of the activity on this workpaper with the forecasted deferred federal income tax expense on Exhibit 38, Schedule E-1.3, page 2.

b. Provide a reconciliation of the activity on this workpaper with the forecasted deferred state income tax expense on Exhibit 38, Schedule E-1.4, page 2.

78. For the base period, provide a detailed description of major plant additions or retirements. Include, at a minimum, a description of major work orders, date placed in service or retired from plant, a copy of work order summaries, whether additions are related to growth, reliability, upgrades, etc., and other key information or documents associated with all plant activity included on Exhibit 36, Schedule B-2.3, page 1.

79. For the forecasted period, provide a detailed description of major plant additions or retirements. Include, at a minimum, a description of major work orders, date placed in service or retired

from plant, a copy of work order summaries, whether additions are related to growth, reliability, upgrades, etc., and other key information or documents associated with all plant activity included on Exhibit 36, Schedule B-2.3, page 2.

80. Provide an analysis and explanation for administrative and general costs, and taxes capitalized for the base period and forecast period.

81. Provide a comparison of Kentucky-American's projected rate base, income statement, and capital structure from Case No. 92-452 with its actual results. Include a detailed explanation of any variance that occurred.

82. Provide a reconciliation by account of the forecasted revenues and expenses contained in the lead/lag study, Exhibit 36, Schedule B-5.2 page 5, with the forecasted revenues and expenses from Exhibit 36, Schedule C-2, page 1.

83. Refer to workpaper W/P-1-12.1, rate base adjustment - OPEB:

a. Provide the actual May 1994, August 1994, and November 1994 OPEB contributions.

b. Was it a management decision to continue to contribute a higher level of OPEB's than the Commission allowed in Case No. 92-452?

c. What direct benefits do the customers derive from Kentucky-American contributing a higher level of OPEB's than the Commission allowed in Case No. 92-452?

84. Refer to Exhibit No. 8, the reconciliation of forecasted rate base and capital. Provide a detailed description of the following:

- a. Property Held for Future Use \$ 99,957
- b. Non-utility Property \$ 9,152
- c. Other, net \$(50,399)

85. Provide a comparison of the annual budgeted amounts and actual results for programmed maintenance for the period 1984 through 1993 and explain all variances between actual and budgeted amounts.

86. Provide a comparison of the budgeted amounts and actual results for the Service Company charges allocated to Kentucky-American for the period 1984 through 1993 and explain all variances between actual and budgeted amounts.

87. Provide a comparison of the budgeted amounts and actual results for the direct billed Service Company charges to Kentucky-American for the period 1984 through 1993 and explain all variances between actual and budgeted amounts.

88. Provide the docket number, date and level of the last authorized return on equity for California Water Service Company, Middlesex Water Company, and Southern California Water Company.

89. Provide the docket number, date and level of the last authorized return on equity for each utility subsidiary of Dr. Phillips' holding company proxy group.

90. Does Kentucky-American issue common stock? Does it incur related expenses recoverable only through a flotation cost adjustment?

91. Does Kentucky-American find capital attraction difficult?

92. Provide a schedule showing the calculation of the DCF cost of equity estimate for American Water Works.

93. Provide a copy of any order, study or staff paper of the Virginia Commission explaining the risk premium methodology discussed on page 19 of Dr. Phillips' testimony.

94. Is the basis for the proposed 5.35 percent short-term debt rate and the projected 7.5 percent long-term debt issuance rate the June 3, 1994 Value Line Selection and Opinion cited in W/P-7-7.4? If so, provide a copy. If not, state the basis for those cost rates.

95. Explain how a 38 percent common equity level compares favorably with water companies listed in Exhibit CFP-1, Schedule 2.

96. Is March 1995 or September 1995 the projected issuance date for the \$6 million debt financing?

97. What percentage rate is Kentucky-American proposing to use in this case for its embedded cost of long-term debt?

98. Identify the sources of all data used in the Weather Normalization Model.

99. Identify all assumptions used in developing the Weather Normalization Model.

100. What factors did Kentucky-American use in evaluating this model?

101. Have other subsidiaries of American Water Works used this model in other jurisdictions? If yes, identify the companies, the jurisdictions and the specific rate cases.

102. Identify all assumptions used in the analysis presented in response to Question No. 45 of Mr. Grubb's testimony. Also, describe the basis for each assumption.

103. Expand on the statement in the AUS study at page 4 that, "As a result of the nature of the demand for water service, pricing is limited as a tool for controlling demand."

104. Does Mr. Harris believe that there are externalities that should be considered in evaluating different types of pricing for Kentucky-American? If yes, identify them. If no, explain why not.

105. Identify the weaknesses or the flaws in your conclusions that might result from your assumption that "for purposes of this study that KAWC's internal costs subsume all the costs of providing water service."

106. The AUS study, at page 7, assumed that "total economic costs equal KAWC's internal costs, although it is acknowledged that there may be other costs." Identify the primary categories of other costs. Describe how exclusion of these costs may weaken the analysis.

107. On page 11 of the AUS study it is stated that "Because water is largely unsubstitutable, price changes have little effect on demand and water is said to have a relatively inelastic demand." Is this statement accurate for different types of water use? For example, is the elasticity of demand for water different depending

on whether it is used for drinking water, household use, landscaping maintenance or industrial process? Address in detail. If elasticity of demand varies by use, shouldn't that be considered in looking at alternate rate structures?

108. Is Mr. Harris familiar with the methodologies used in the studies listed in Table 1? If yes, describe them and comment on their appropriateness and reliability.

109. The AUS study, at page 16, states that, "The costs associated with the Louisville Interconnection are used as the surrogate for KAWC's LRIC." How would the results of the AUS study change if a less expensive method of meeting future demand is used? How would the results of the AUS study change if a more expensive method is used?

110. The AUS study, at pages 22-23, discusses the difficulty in setting the first block of inverted rates so as to accommodate basic human needs. How have utilities in other jurisdictions addressed this problem?

111. Have utilities in other jurisdictions designed inverted rates based on cost of service principles? If yes, identify and describe their experience with implementation.

112. How have utilities in other jurisdictions addressed the revenue and cash flow problems mentioned on pages 23 and 24 of the AUS study?

113. Does AUS support monthly billing as a first step in establishing rates designed to change consumption patterns?

114. Identify several water utilities in the western and eastern United States using an interruptible rate and describe their experience with it.

115. In several places the AUS report states that there are no long-term benefits to rate design changes since the capacity expansion needs of the system cannot be eliminated or deferred. Would this statement be accurate if externalities were included in the evaluation? Identify the primary externalities involved in this issue and comment on how including them in this evaluation might change the conclusions.

116. Can Mr. Harris identify reasons other than eliminating or deferring the expansion capacity needs of the system to encourage conservation.

117. Does Kentucky-American think there are externalities that should be considered in evaluating a change to inverted block rates? Is yes, identify them. If no, explain.

118. Identify other utilities that are using inverted block rates. How have they adapted to the impact on revenue stability? Could Kentucky-American use the same measures other utilities have? If no, why not?

119. Are there reasons other than the deferral or elimination of the pipeline project to implement rate design or billing changes to encourage water conservation?

120. Refer to Bush's testimony at page 2 through 9 in response to Question No. 7. Provide the reasons for all assumptions

presented. Explain the justification for all assumptions. Identify the sources of all data used in the forecast.

121. Refer to Mr. Bush's testimony, Answer No. 8, and explain how the impact of the 1,925 residential retrofit kits was determined.

122. According to W/P 3-6.12, the company projects a 7.5 percent increase in group insurance premiums effective October 1994 and October 1995. Provide documentation to support this projected increase.

123. Provide a copy of the most recent actuarial report regarding other postretirement employee benefits.

124. Provide detailed workpapers supporting the requested OPEB expense of \$678,879 (W/P 3-6.4). These workpapers should include a breakdown of service cost, interest cost, return on plan assets, gains and losses, and amortization of the transition obligation.

125. Provide an estimate of the pay-as-you-go costs for OPEBs for 1994, the base period, and the forecasted test year.

126. Page 10 of James E. Salser's testimony states that Kentucky-American projects an OPEB funding level of \$1,006,148 for the period July 1, 1993 through December 31, 1994.

a. Thoroughly justify the position that the difference between the amount funded and the OPEB expense recovered in rates should be included in the rate base calculation.

b. Does Kentucky-American expect the amount funded to be fully tax deductible? If not, provide calculations regarding the amount expected to be tax deductible.

c. Discuss fully other instances where the difference between the amount expended and the amount included in rates for an expense is included in rate base. If there are no other expenses accorded this type of treatment, justify Kentucky-American's special treatment of the difference between OPEB funding and OPEB rate recovery.

127. Explain the nature of the \$23,357 adjustment to other welfare and educational expense included in adjustment D-16. Provide workpapers showing the calculation of this adjustment.

128. Discuss fully all actions American Water Works/Kentucky-American have taken since Kentucky-American's last rate case, plan to take, or are reviewing to reduce or control postretirement benefit costs.

129. Provide a copy of all letters or other correspondence dated subsequent to March 22, 1993, with AWW, Kentucky-American's actuary, and Kentucky-American's independent auditor regarding other postretirement employee benefits.

130. What changes in the level of other postretirement benefits does Kentucky-American plan to pursue when negotiating a new collective bargaining agreement with its employees.

131. In Case No. 92-452, the Commission excluded from rates the OPEB expense for the first eight months of 1993, the period between Kentucky-American's implementation date for SFAS 106 and the beginning of the forecasted test year. Has this expense been included in the calculation of revenue requirements or rate base in the current rate case? If so, explain thoroughly.

132. Provide a copy of the most recent actuarial report for AWW/Kentucky-American's pension plan.

133. Has the difference between the amount of pension expense allowed in rates in the last rate case and the amount of pension expense actually funded been included in the calculation of rate base? Thoroughly explain and justify the company's response.

134. According to Note 6 in the Notes to the Financial Statements contained in the 1993 Annual Report to the Stockholders, Kentucky-American planned to implement SFAS 112, "Employers' Accounting for Postemployment Benefits" in the first quarter of 1994.

a. Provide detailed information regarding the type of postemployment benefits provided by Kentucky-American.

b. Provide the amount of expense recorded for postemployment benefits for the base period and the forecasted test year. Provide workpapers supporting the calculation of this expense.

c. Provide the initial accounting entry recorded by Kentucky-American to implement SFAS 112.

d. Reference the account number and workpapers in the rate application which include postemployment benefits.

135. Provide copies of page 2 of 2 of Schedule B-8, comparative balance sheet, which were missing from Exhibit 36 of the application.

136. In reference to W/P 1-12:

a. Explain how the OPEB contributed amounts of \$137,105, \$162,859, and \$176,546 were calculated and provide detailed workpapers to support the calculations and assumptions.

b. How is the date of contribution determined?

c. State the dates on which contributions will be made during the future test year, the amounts of such contributions, and how they will be determined.

d. Do the contributions include an allocation of service company contributions? If yes, provide a schedule showing separately for each group the amounts contributed and provide detailed calculations and workpapers.

137. Is Kentucky-American accruing OPEB expenses at a rate equal to that authorized in Case No. 92-452? If no, explain why and how the difference is accounted for.

138. In reference to Mr. Salser's testimony and exhibits:

a. Why is Kentucky-American requesting OPEBs calculated using the same medical cost trend assumptions that were rejected in Case No. 92-452?

b. What would be the OPEB cost to Kentucky-American if the average Kentucky utilities medical trend rates shown on Exhibit JES-3 were used? What would be the OPEB cost to Kentucky-American if the trend rate proposed in C.N. 94-197 were used but with the 1994 and 1995 trend rate assumptions decreased by 2 percent? These responses should include a breakdown of service cost, interest cost, return on plan assets, gains and losses, and amortization of the transition obligation.

139. What amount of the transition obligation has been accrued by Kentucky-American? What amount is accrued monthly? How is Kentucky-American treating the difference between the transition obligation being accrued and the transition obligation being recovered through the rates approved in C.N. 92-452?

140. Provide workpapers showing cost calculations for the AWWs OPEB allocation under the 1971 and 1989 service company contracts. Include a breakdown of service cost, interest cost, return on plan assets, gains and losses, and amortization of the transition obligation. Identify whether this expense is included in OPEB expense or management fees in the rate filing.

141. Provide a schedule in the same format as W/P 3-6.1 through W/P 3-6.4 for the base period and the 12-month historical period. Supply a copy of the source documents for each coverage and premium.

142. Does the requested pension expense of \$285,395 include an allocation for AWWs employees? If so, provide a schedule showing the breakdown of expense between Kentucky-American employees and the service company employees. Provide cost calculations for the AWWs pension allocation under the 1971 and 1989 service company contracts.

143. Why was a 5-year average of weather normalized sales used for the classes for which sales were normalized? Did Kentucky-American consider using any other period of time to calculate an average? Why?

144. Refer to the Sales portion of Response 3 to the Commission's June 27, 1994 Order. How often does Kentucky-American review existing building lots and plats and consult with developers, home builders, and engineers? Has it done so since its last rate case? Are these reviews and consultations documented? If so, provide copies.

145. Workpapers 2-2.76 through 2-2.87 show monthly customers and water sales for 1988-1993. Provide, by class, monthly customers and water sales figures for the base period and the forecast period.

146. Provide the water sales and customer history data referred to in Mr. Grubb's testimony, Response 40, for the years 1983 - 1987.

147. For each year from 1983 through 1993, which is the time period referenced by Mr. Grubb for the review of customer and sales data, provide the average monthly residential usage for the 4-month period June through September, as well as the average for October through May of each year.

148. While Kentucky-American is not proposing to change its existing rate design, Mr. Grubb's weather normalization analysis indicates that certain customer classes exhibit a greater correlation between sales and weather conditions. Would Kentucky-American agree that those classes would be the most appropriate for the potential implementation of seasonal rates? Why?

149. In Case No. 92-452, the Commission ordered Kentucky-American to maintain its billing records so that usage increments

could be ascertained and used to develop inverted block rates or seasonal rates. Kentucky-American has not proposed any rate design changes and its billing analyses included on Schedules M-3.1 and M-3.2 show total consumption by customer class. Provide a full explanation of the amount of detail maintained by Kentucky-American in compliance with the Order in Case No. 92-452.

150. Mr. McKittrick's Schedule 1 shows the potential impact on earnings if inverted rates are implemented at an "average" inverted rate of \$3.00 per thousand. Does this average represent a tail block rate, an average of a tail block rate and another block rate or something else?

151. Kentucky-American is proposing to increase its existing rates for all customer classes by the approximate overall percentage rate increase. Explain how this proposal is supported by the results of Kentucky-American's cost-of-service study.

Done at Frankfort, Kentucky, this 4th day of August, 1994.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director